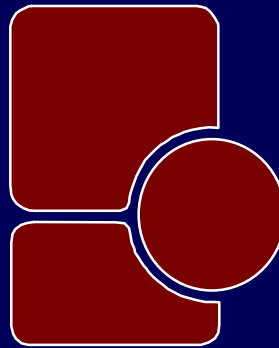


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Review of Spending
in State Government**

**Staff Briefing to the
Governor's Commission on Efficiency and Effectiveness
March 10, 2002**

Introduction

2

Staff for this study:

Kirk Jonas, Deputy Director

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Presentation Outline

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☒ Study Mandates

☐ Budget Growth in Virginia

☐ Case Studies

Study Mandates

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- **HJR 773 and HB 2865 (both from 2001) direct JLARC to review State spending and identify:**
 - The largest and fastest growing programs,
 - The causes of expenditure growth,
 - Programs that may be indistinct or inefficient, and
 - Programs that could be consolidated.

- **HJR 733 also calls for:**
 - An assessment of the use of performance budgeting and measurement in legislative budgeting, and
 - An analysis of the use of State funds by private organizations.

Presentation Outline

5

☐ Study Mandates

☒ **Budget Growth in Virginia**

- Societal Factors
- Overview of Expenditure Trends
- Growth in Agencies
- Growth in Budget Programs

☐ Case Studies

Explaining Budget Growth

6

- JLARC staff will seek to explain long-term budget growth by a combination of methods:
 - Analyzing societal factors such as population growth, inflation, growth in personal income, etc.
 - Recapping Virginia-specific factors, such as initiatives and funding decisions
 - Identifying budget drivers – the agencies and programs that account for the bulk of spending growth
 - Examining how individual agency budgets have grown

Examples of Revenues Appropriated Through the State Budget Process

7

- Revenues from income, sales, motor vehicle and other taxes and fees
- Federal funds
- Tuition payments
- Court-ordered fines, fees, forfeitures
- Child support payments from non-custodial parents
- Hunting & fishing license fees
- Fees for professional registration & licensing
- Proceeds from the sale of surplus property

Societal Factors

1980 - 2000

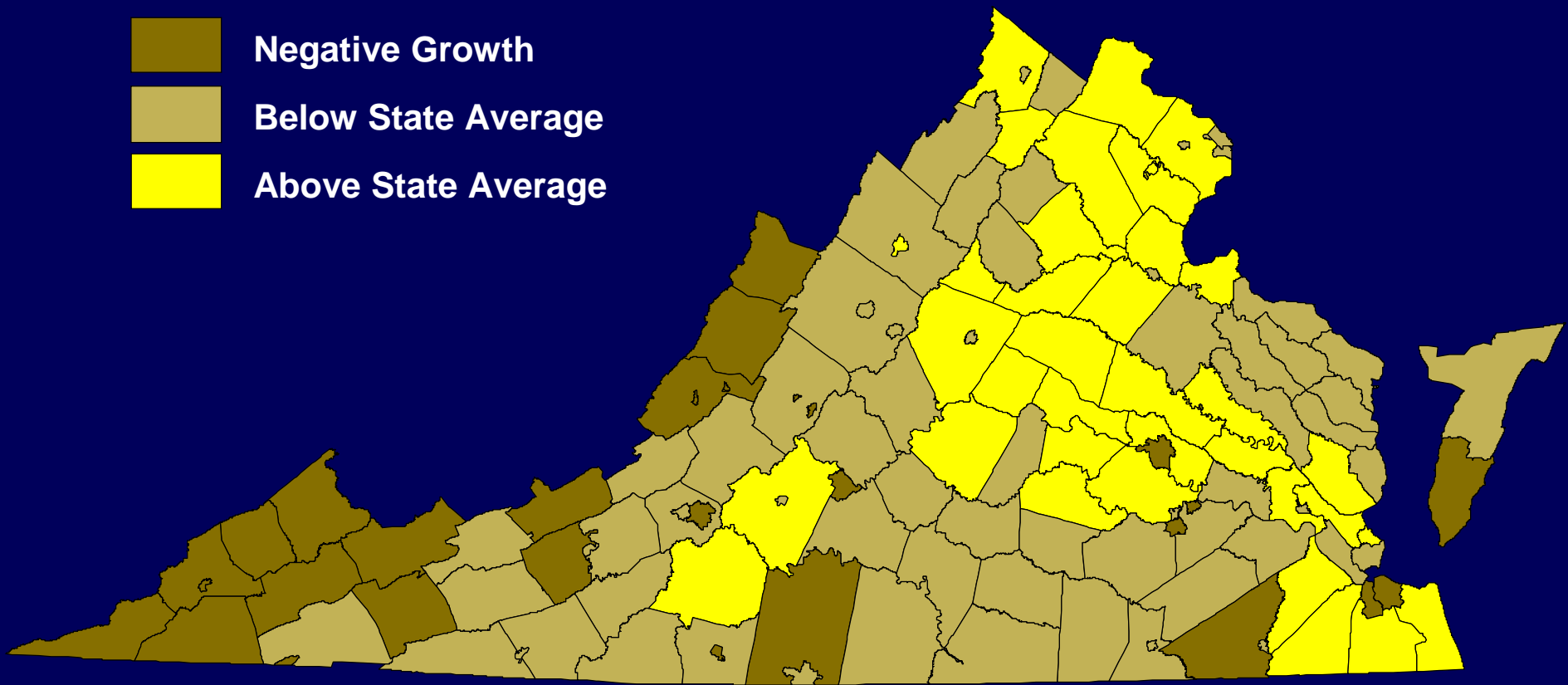
8

<u>Growth</u>	<u>US</u>	<u>Virginia</u>	<u>State Rank</u>
Population	21%	32%	12 th
Inflation (CPI-U)	92%	92%	--
Gross State Product*	71%	91%	14 th
Personal Income**	65%	84%	12 th

*Inflation adjusted 1999 dollars

**Inflation adjusted 2000 dollars

9



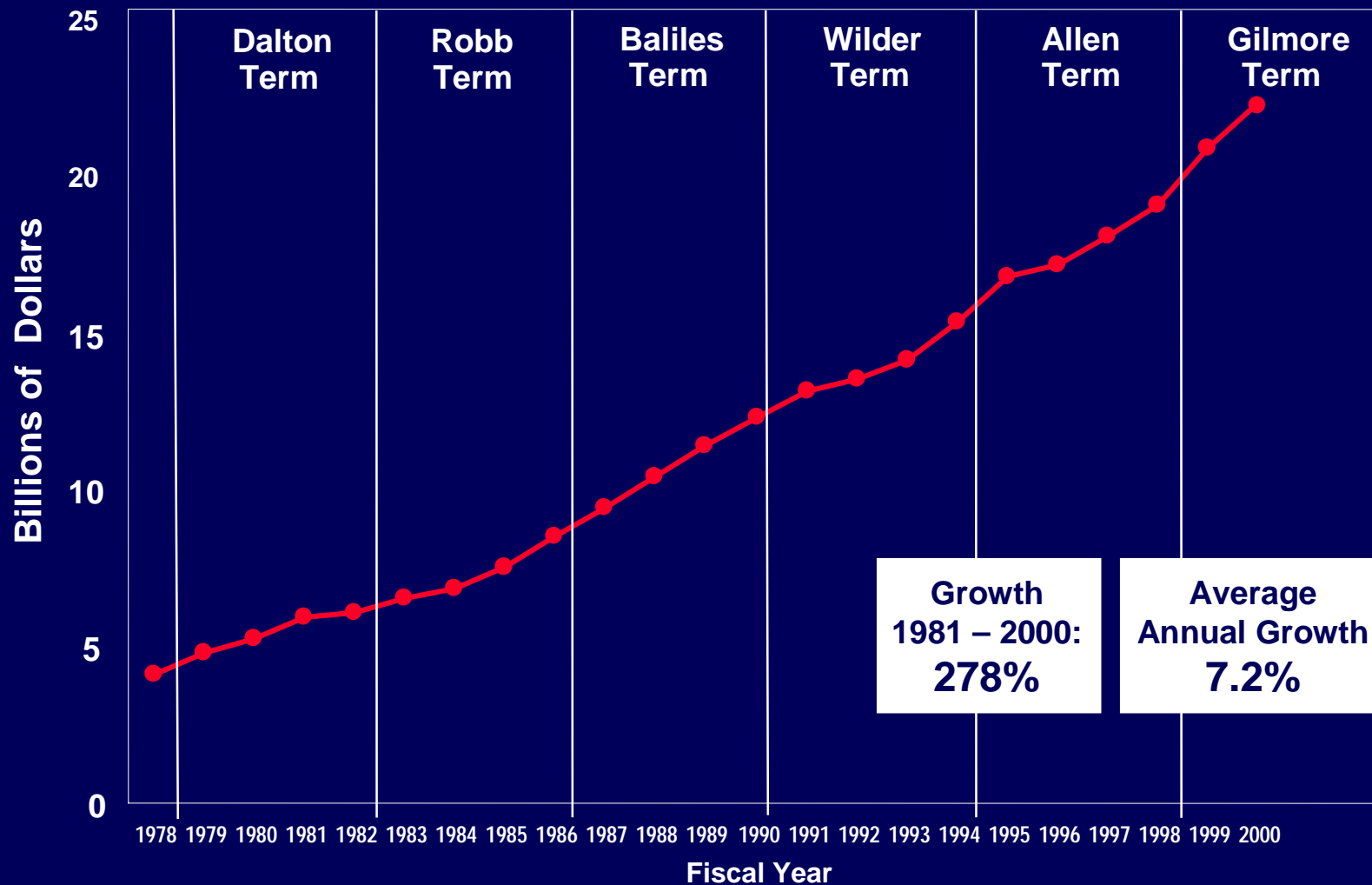
Some Ways Virginia Government Services Changed Between 1981 and 2000

10

	1981	2000	Percent Change
K-12 Enrollment (ADM)	1,003,283	1,122,191	12%
Enrollment, State Colleges & Universities	123,292	153,772	25%
Registered Vehicles	3,823,055	6,313,411	65%
Medicaid-Eligible Recipients	288,254	674,127	134%
State Inmate Population	8,363	30,394	263%

Total Virginia Expenditures (All Funds)

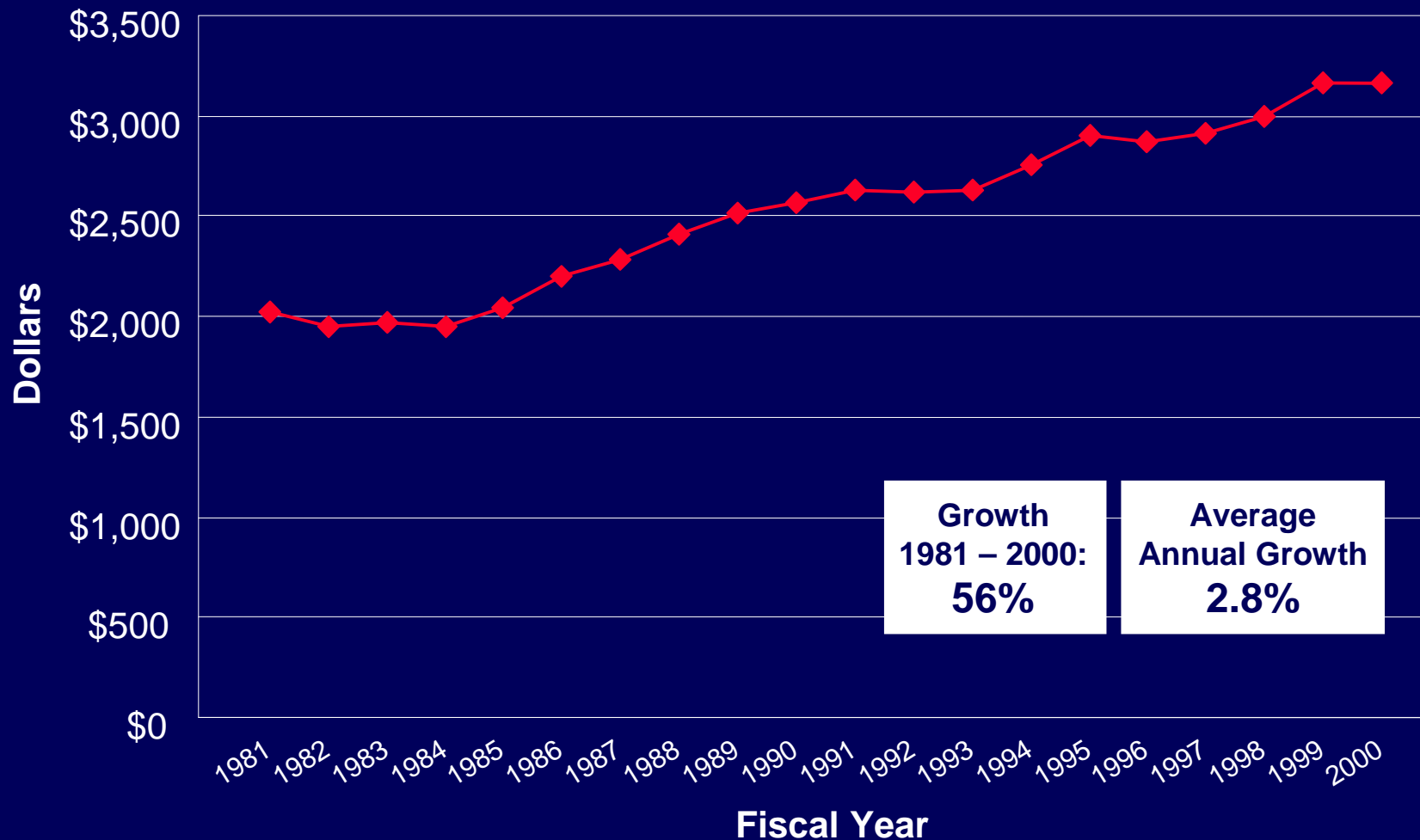
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Inflation-Adjusted State Expenditures Per Capita

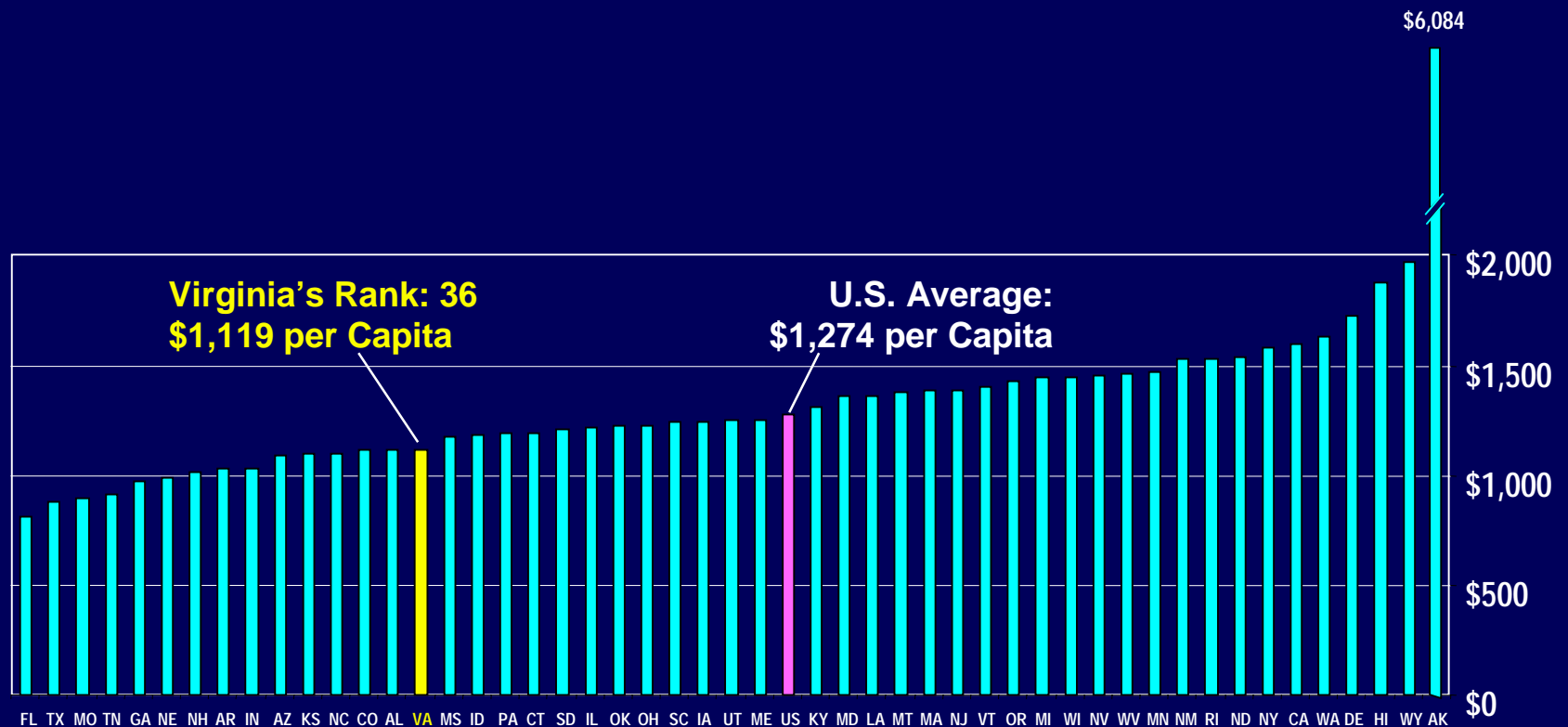
(All Funds, In 2000 Dollars)

12



States Compared for Spending Per Capita Fiscal Year 1981

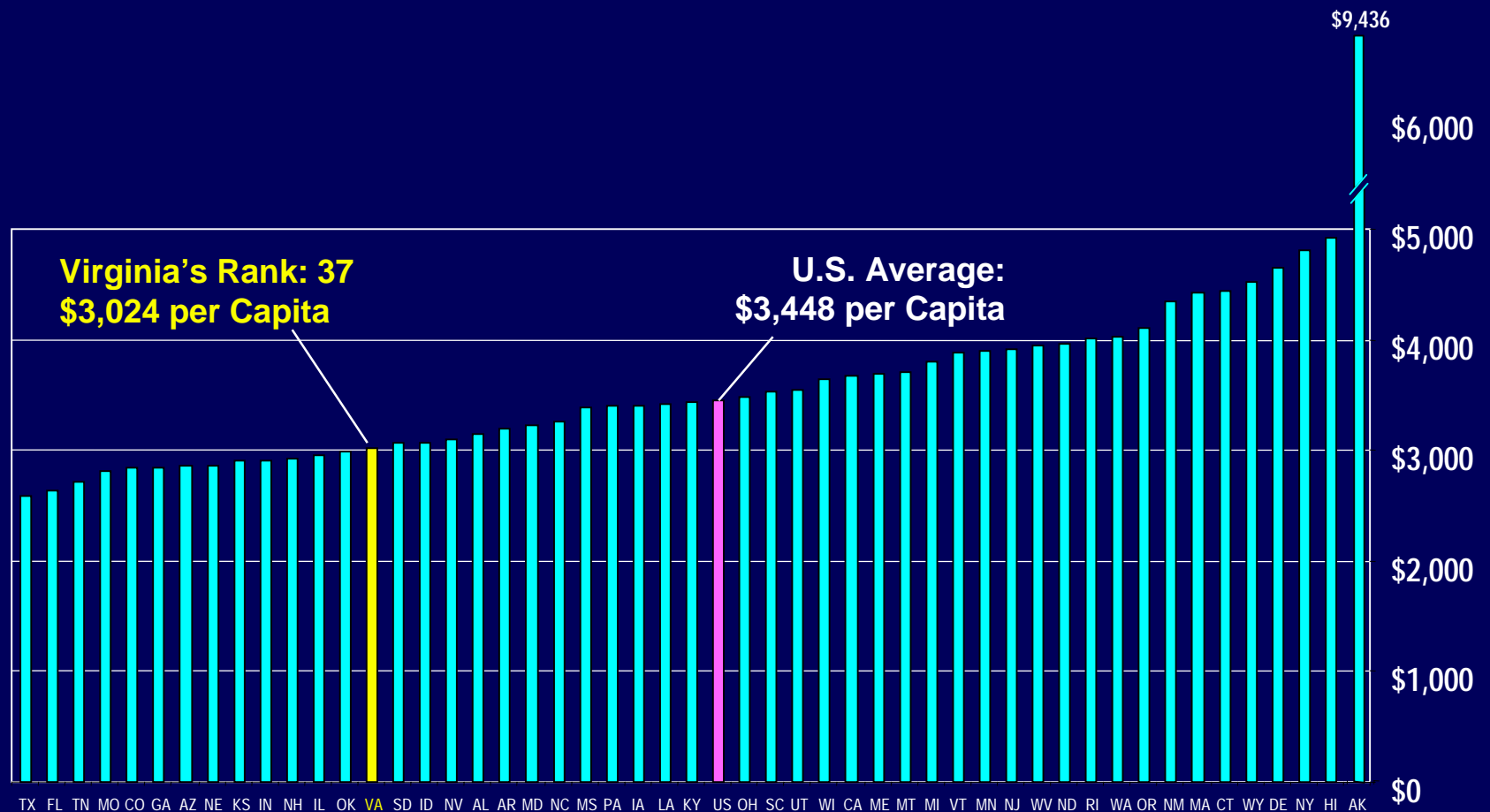
13



Source: U.S. Census Bureau.

States Compared for Spending Per Capita Fiscal Year 1998

14



Source: U.S. Census Bureau.

Virginia Rankings

15

■ K-12 Education

- Spending per pupil (1999-2000): 21st
- Percent of funding support from State Funds (1999-2000): 40th
(Virginia was 42%; National average was about 50%)
- Percent contribution from local funds (1999-2000): 13th
- Average teacher salary, 1999-2000: \$38,744
 - School division linear weighted average: \$34,546
 - National average: \$41,820

■ Higher Education

- State funds for higher education per student (1997-98): 29th
- In-state undergraduate tuition & fees (1999-2000)
 - Public doctoral universities: 18th
 - Public colleges and universities: 10th
- State spending on student financial aid: 10th

Virginia Rankings

16

■ Medicaid

- Recipients as percent of population (1998): 45th
- Per capita Medicaid spending (1998): 48th

■ Welfare

- TANF recipients as % of population (1999): 42nd
- State and local welfare spending (1997): 45th
- Average monthly administrative costs per TANF case (1999): 28th

Virginia Rankings

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■ Transportation

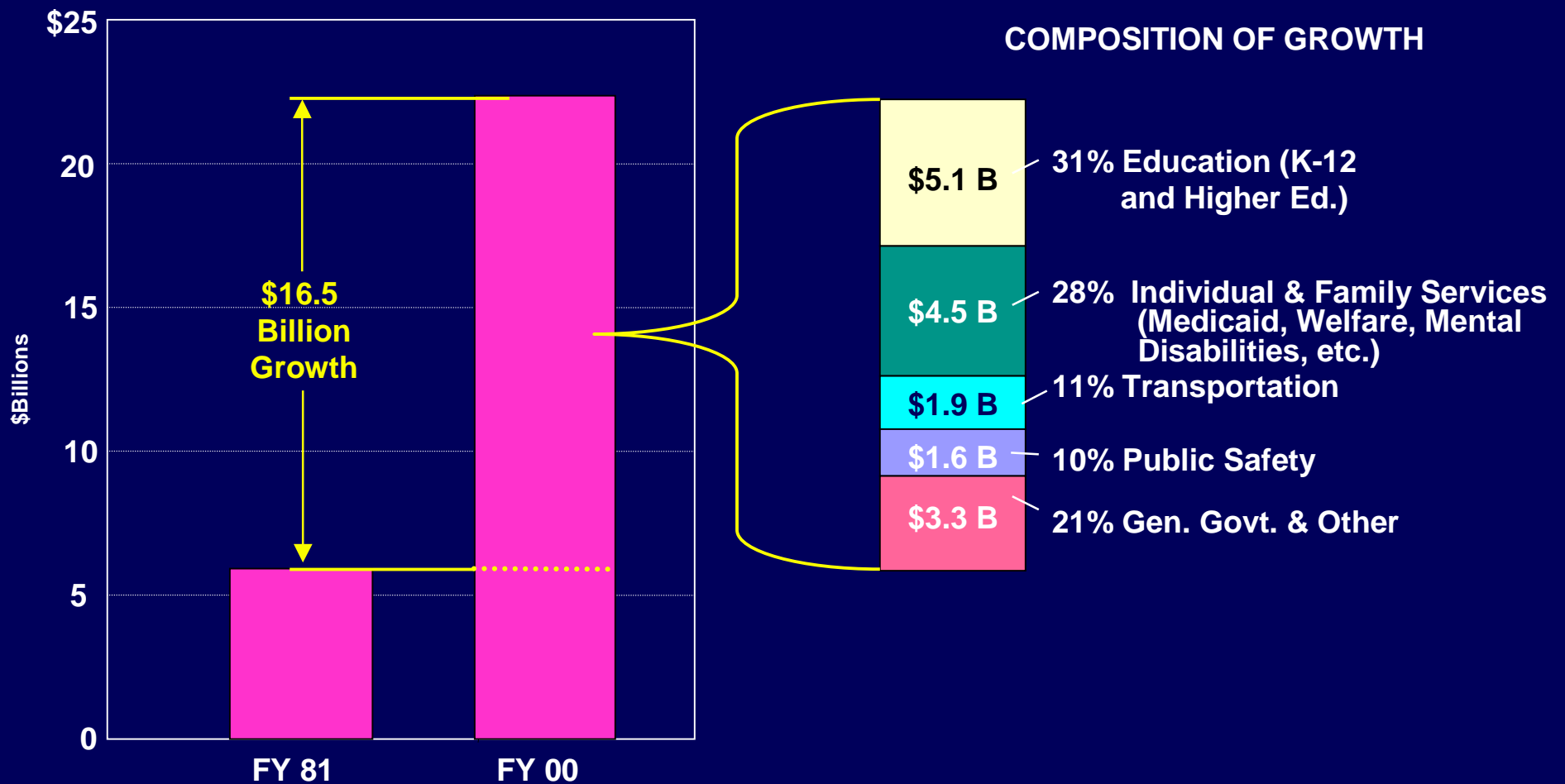
- State & local spending for highways (as % of personal income, 1997): 21st
- Road mileage for which State is responsible: 3rd

■ Public Safety

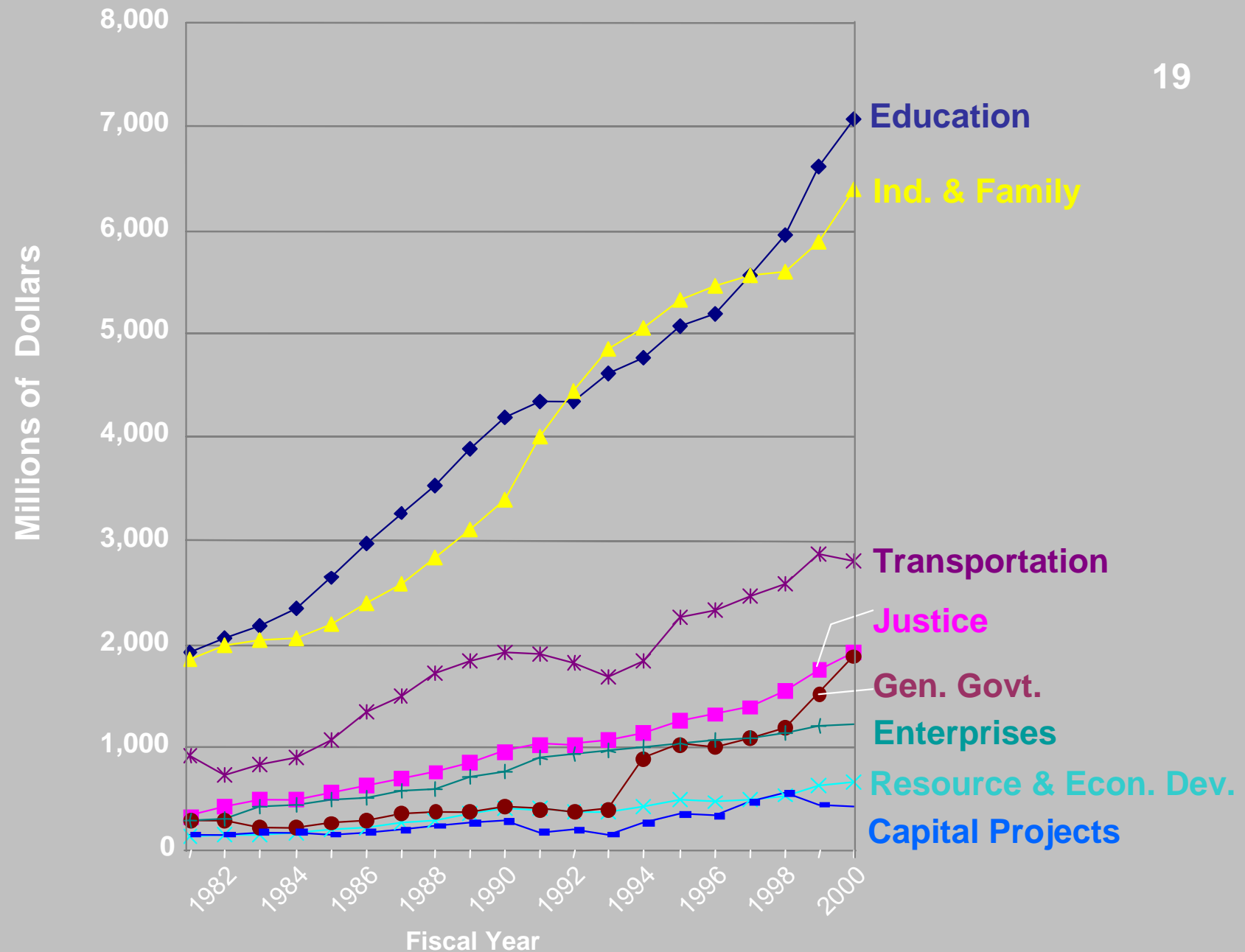
- Violent crime rate (1999): 35th
- Incarceration rate (1999): 15th
- State inmates (1999): 11th
- State and local spending for law enforcement per capita (1997): 24th

Composition of State Budget Growth Between FY 1981 and FY 2000

18



Expenditures by Functional Area, FY 1981 -- FY 2000



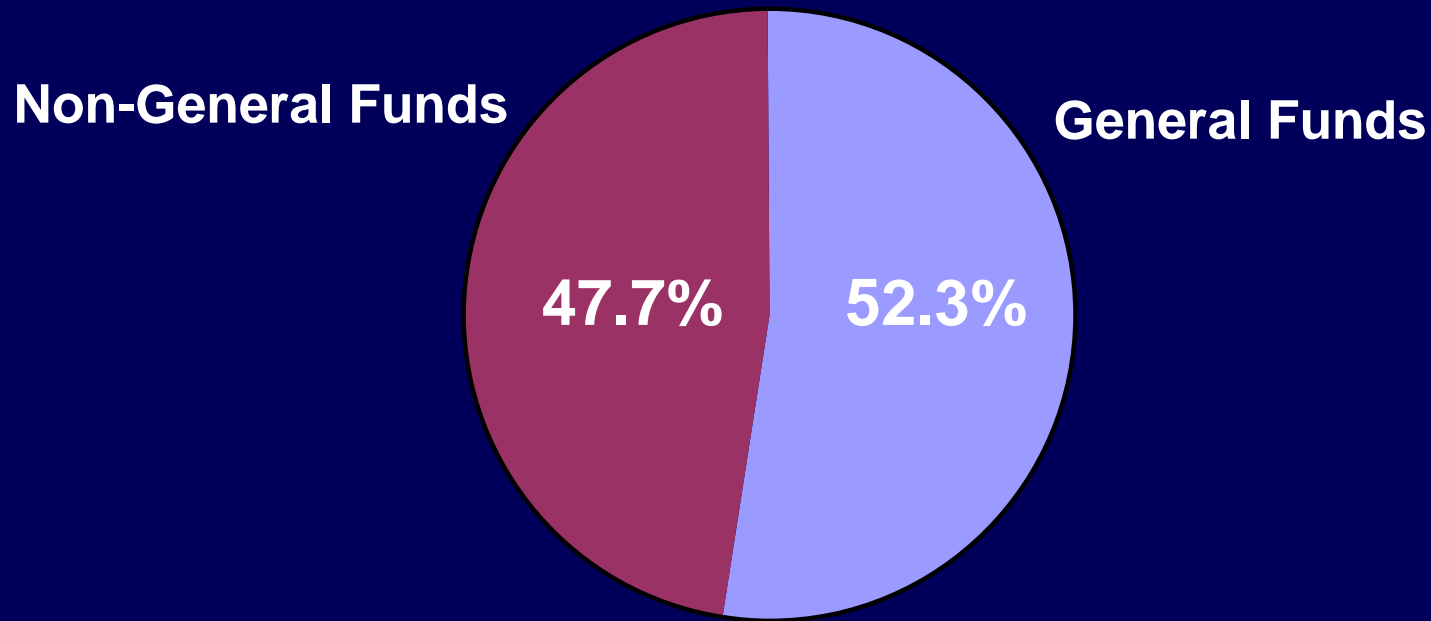
Which Agencies Grew the Most Between FY 1981 and FY 2000?

20

- In Terms of Absolute Change (Nominal Dollars) in Appropriation
- In Terms of Percentage Change
 - All Funds
 - General Funds Only
 - Non-General Funds
- Agencies Accounting for Most of the Budget Growth (Budget Drivers)
 - Growth in General Funds
 - Growth in Non-General Funds

FY 2000 Appropriations

21



Total Appropriation = \$21.8 billion
(operating + capital)

How Growth Was Calculated

22

FY 2000 Appropriation
– FY 1981 Appropriation
Growth Since FY 1981

DMAS Example (in millions)

FY 2000:	\$2,862.0
FY 1981:	– <u>\$ 436.2</u>
Growth:	\$2,425.8

Which 20 State Agencies Grew the Most Between FY 1981 and FY 2000?

23

■ Largest Nominal Dollar Change in Total Appropriation

1. Department of Education	\$ 2,976 million
2. Universities	\$ 2,695 million
3. DMAS (Medicaid)	\$ 2,426 million
4. VDOT	\$ 1,421 million
5. Dept. of Social Services	\$ 775 million
6. Dept. of Corrections	\$ 564 million
7. Central Appropriations	\$ 507 million
{Includes Car Tax}	{\$ 398 million}
8. DMHMRSAS (Mental Health)	\$ 494 million
9. Compensation Board	\$ 404 million
10. VCCS (Community Colleges)	\$ 294 million

Which 20 State Agencies Grew the Most Between FY 1981 and FY 2000?

24

■ Largest Nominal Dollar Change in Total Appropriation

11. Department of Health	\$ 287 million
12. Department of Criminal Justice Services	\$ 249 million
13. Department of Treasury (inc. Rainy Day Fund)	\$ 202 million
14. Department of Juvenile Justice*	\$ 180 million
15. Treasury Board	\$ 174 million
16. Supreme Court	\$ 165 million
17. Comprehensive Services Act*	\$ 151 million
18. Department of Environmental Quality*	\$ 146 million
19. Virginia Employment Commission	\$ 138 million
20. State Police	\$ 126 million

*Agency did not exist in FY 1981

Which 20 State Agencies Grew the Most Between FY 1981 and FY 2000?

25

Agency	Nominal % Change <u>All Funds</u>	Inflation-Adjusted % Change <u>All Funds</u>
1. DCJS*	1675%	808%
2. Dept. Environ. Quality*	865%	394%
3. Compensation Board	755%	337%
4. Treasury Board	606%	261%
5. DMAS* (Medicaid)	556%	236%
6. Dept. Corrections	362%	137%
7. Central Appropriations	360%	129%
8. Supreme Court	348%	129%
9. Taxation	343%	127%
10. Universities	337%	123%

*Agency did not exist in FY 1981

Which 20 State Agencies Grew the Most Between FY 1981 and FY 2000?

26

Agency	Nominal % Change <u>All Funds</u>	Inflation-Adjusted % Change <u>All Funds</u>
11. Juvenile Justice*	336%	123%
12. Dept. of Education	266%	87%
13. Corp. Commission	246%	77%
14. State Police	246%	77%
15. Game & Inland Fisheries	233%	71%
16. VDH	232%	70%
17. DMV	228%	68%
18. DMHMRSAS	226%	67%
19. Dept. Social Services	223%	65%
20. Dept. of Accounts	207%	57%

*Agency did not exist in FY 1981

Agencies With The Highest Percentage Budget Growth

FY 1981 - FY 2000 -- General Funds Only

27

Agency	Nominal % Change <u>General Funds</u>	Inflation-Adjusted <u>% Change GF</u>
1. Compensation Board	747%	333%
2. Dept. Environ. Quality*	690%	304%
3. DMAS (Medicaid)	628%	273%
4. Treasury Board	591%	253%
5. Supreme Court	347%	129%
6. Dept. of Corrections	324%	117%
7. Central Appropriations	312%	111%
8. Dept. of Education	281%	95%
9. Taxation	221%	64%
10. DMHMRSAS	219%	63%

*Agency did not exist in FY 1981

Agencies With The Highest Percentage Budget Growth

FY 1981 - FY 2000 -- General Funds Only

28

Agency	Nominal % Change <u>General Funds</u>	Inflation-Adjusted <u>% Change GF</u>
11. Universities	200%	54%
12. State Police	195%	51%
13. Dept. of Accounts	193%	50%
14. Dept. of Health	175%	41%
15. VCCS (Com'ty Colleges)	168%	37%
16. Dept. Social Services	121%	13%
17. Dept. of Ag. & Consumer Svcs.	98%	1%

Agencies With The Highest Percentage Budget Growth FY 1981 - FY 2000 – Non-General Funds Only

29

Agency	Nominal % Change <u>Non-General Funds</u>	Inflation-Adjusted % Change <u>NGF</u>
1. DMAS* (Medicaid)	502%	208%
2. Universities	451%	182%
3. Corp. Commission	298%	104%
4. VCCS (Com'ty Colleges)	281%	95%
5. Dept. Social Services	276%	92%
6. Dept. of Health	270%	90%
7. DMHMRSAS	235%	71%
8. Game & Inland Fisheries	232%	70%
9. DMV	228%	68%
10. Criminal Justice Services	221%	64%

*Agency did not exist in FY 1981

Agencies With The Highest Percentage Budget Growth FY 1981 - FY 2000 – Non-General Funds Only

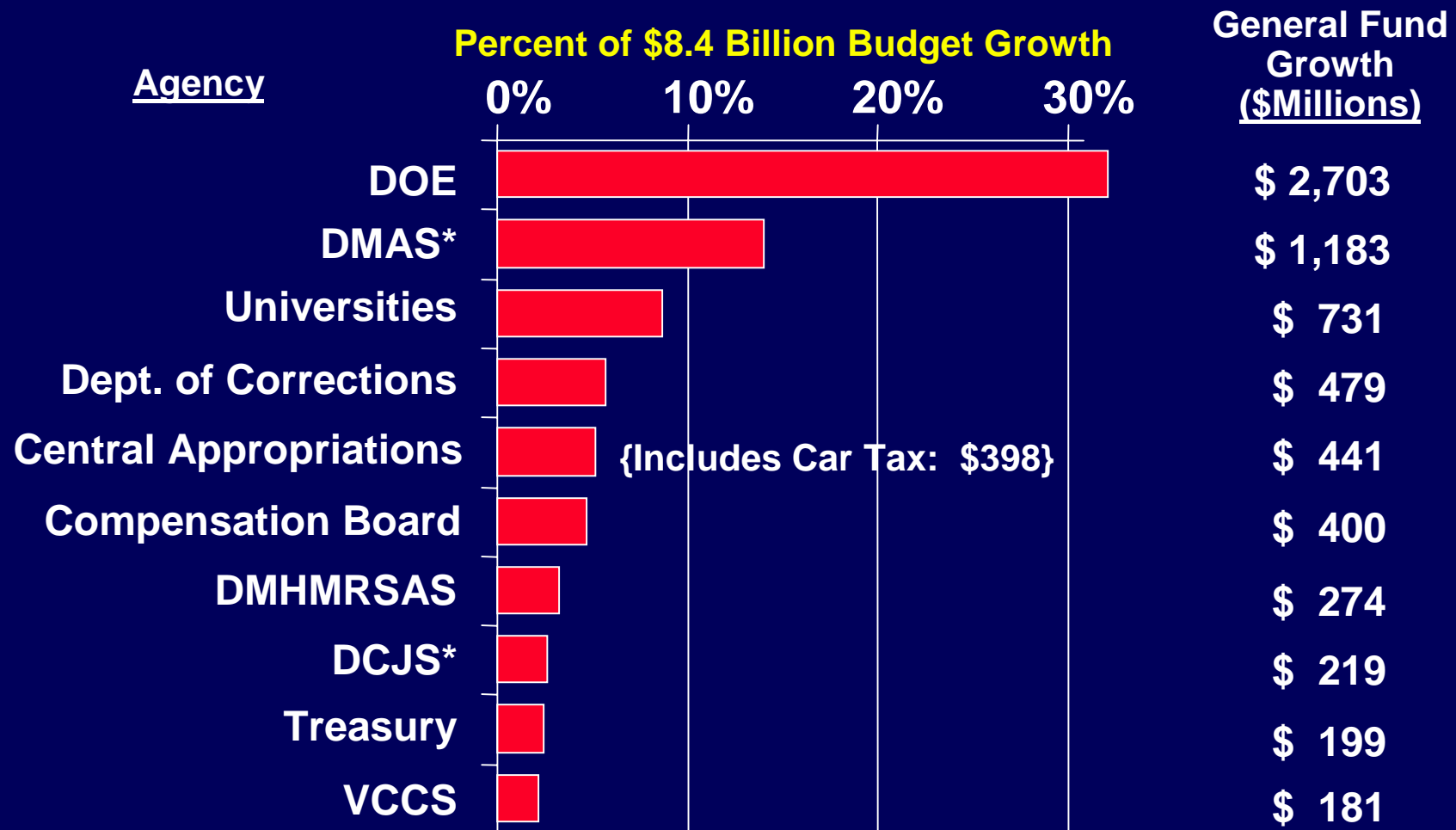
30

Agency	Nominal % Change <u>Non-General Funds</u>	Inflation-Adjusted <u>% Change NGF</u>
11. Dept. of Education	175%	41%
12. VDOT	140%	23%
13. Rehab. Services	139%	22%
14. Va. Employment Comm.	59%	-19%
15. Visually Handicapped	37%	-30%
16. ABC	22%	-37%
17. Dept. of Aging*	20%	-39%
18. Dept. of Aviation	13%	-42%

*Agency did not exist in FY 1981

General Fund Budget Drivers FY 1981 to FY 2000

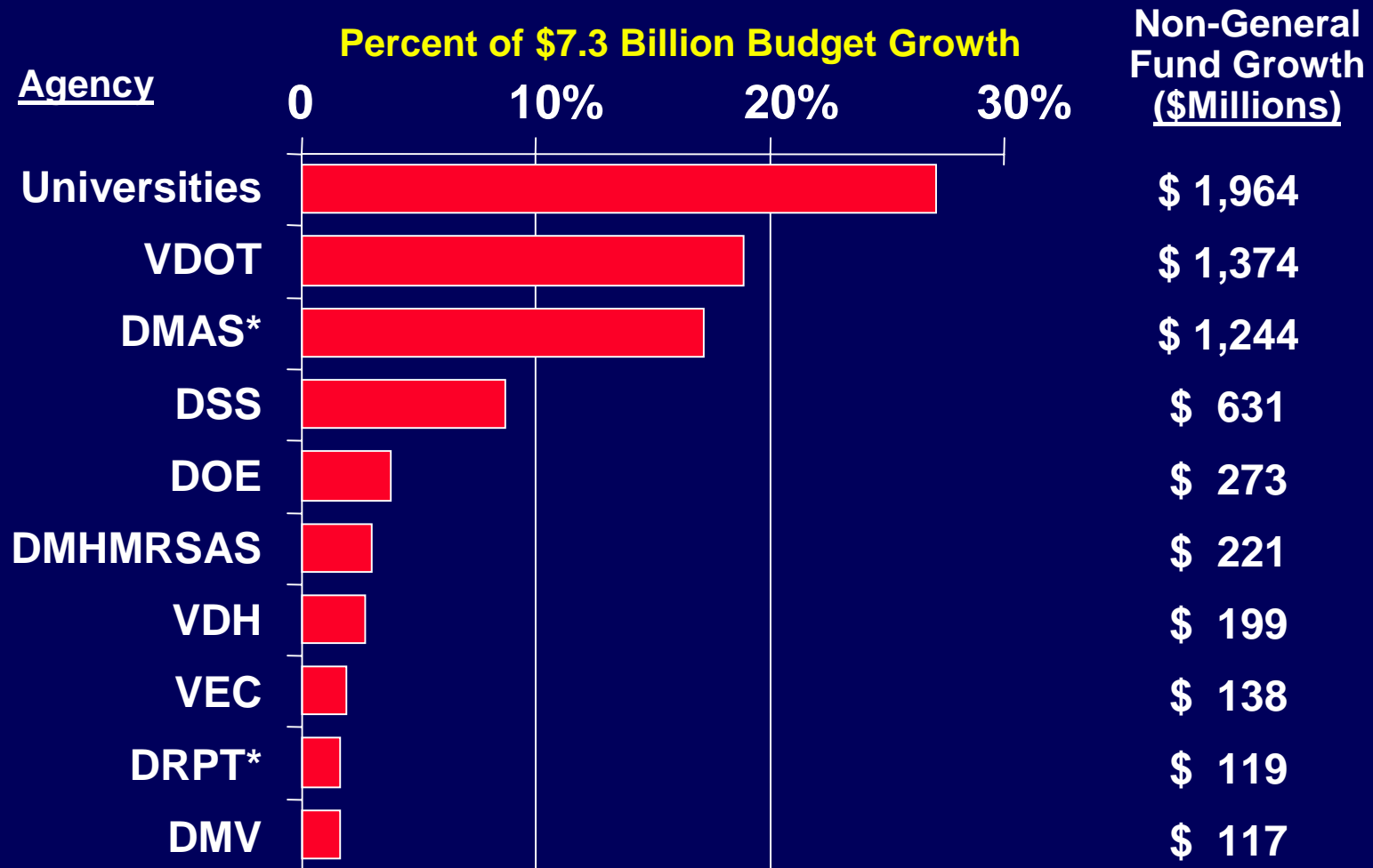
31



*Agency did not exist in FY 1981

Non-General Fund Budget Drivers FY 1981 to FY 2000

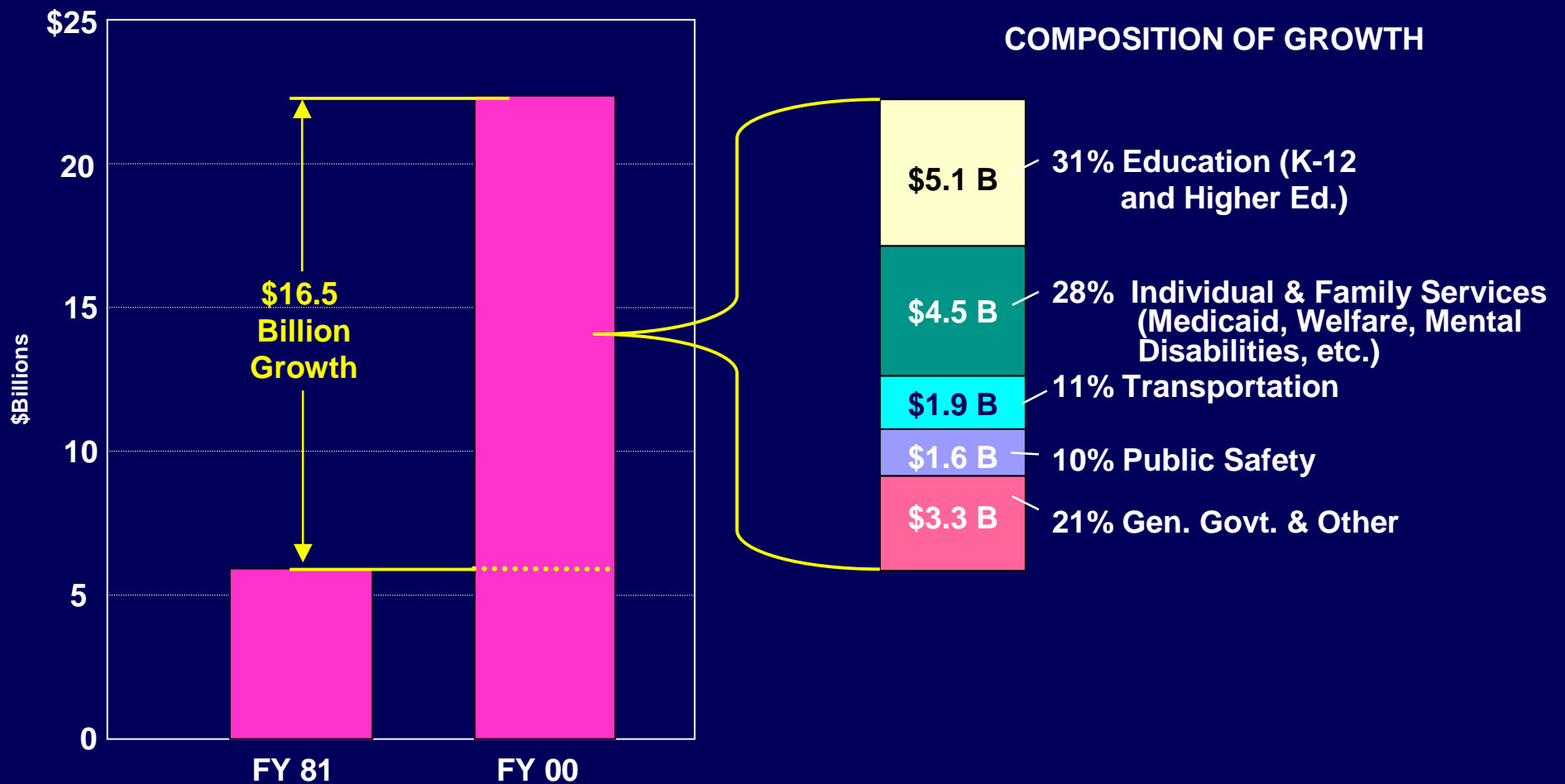
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*Agency did not exist in FY 1981

Composition of State Budget Growth Between FY 1981 and FY 2000

33



Budget Programs

34

- In addition to examining budget growth by agency, we reviewed growth in funding of budget programs.
- Budget programs may appear in more than one agency.
 - Almost every agency has a program for “administration & support services” which includes computer services, accounting, personnel, procurement, etc.
 - Every college & university has a program for “education and general programs” which includes instruction, public services, academic support, student services, plant maintenance, etc.

Composition of Growth in Education Appropriations FY 1983 – FY 2000

35

■ Budget Growth in Education: \$5.1 billion

● Elementary & Secondary Education

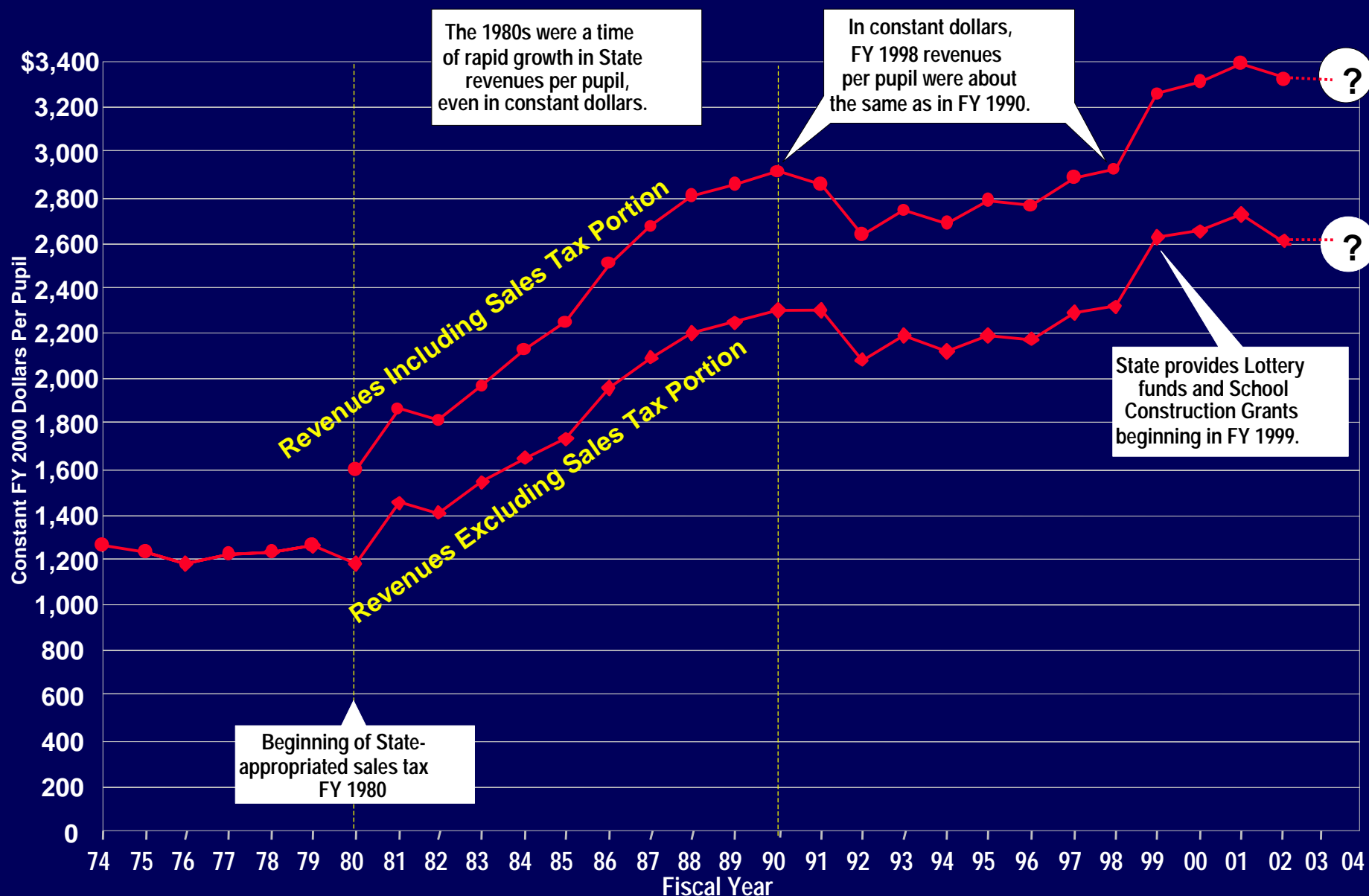
- Public Education (SOQ) \$1,608 million
- Special State Revenue Sharing (Local
Share of Sales Tax + Lottery) \$ 820 million
- Public Education (Categorical) \$ 159 million

● Higher Education

- Education & General Programs \$1,412 million
- Higher Education Auxiliary Enterprises \$ 472 million
- Financial Assistance for E&G Services \$ 365 million
- Student Financial Assistance \$ 113 million

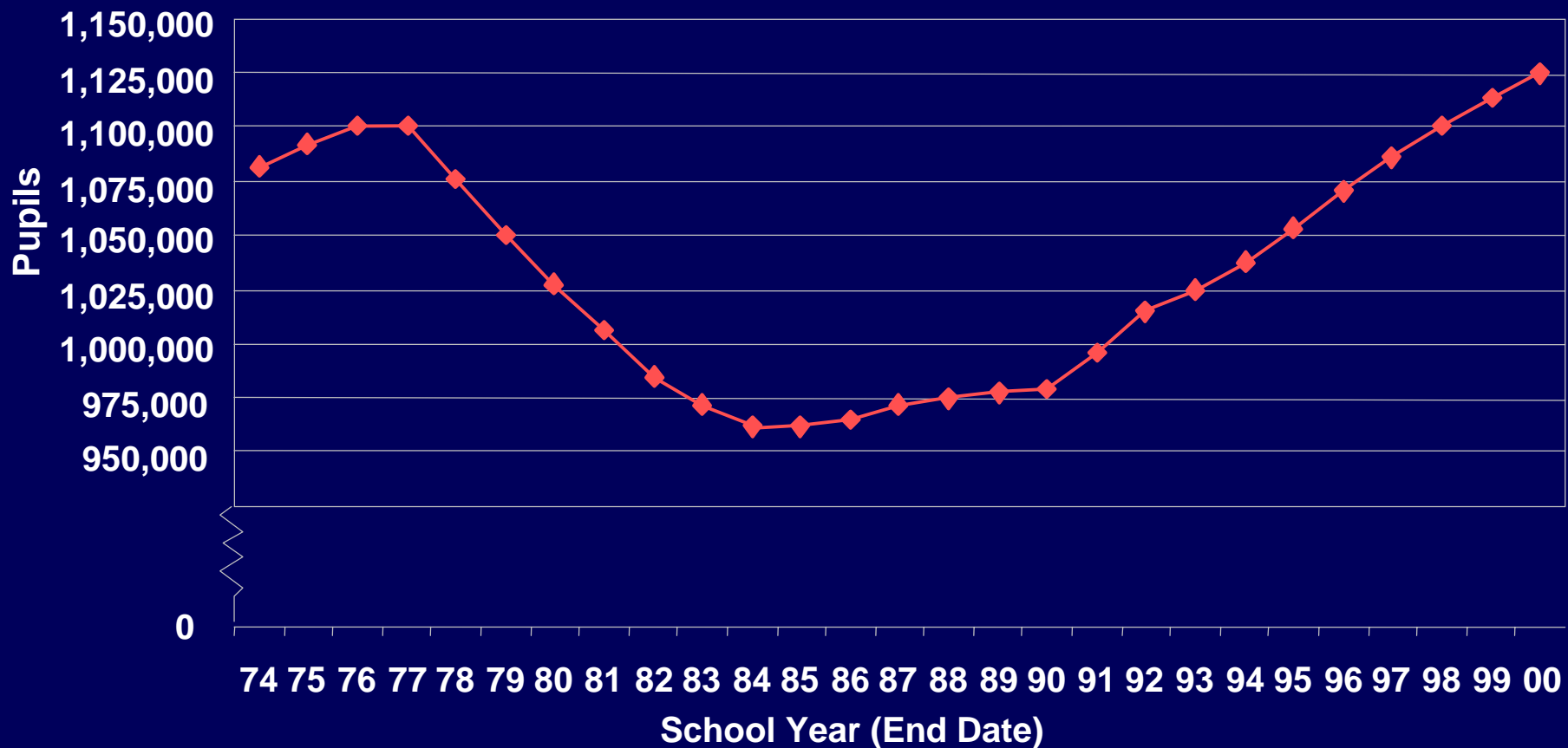
School Division Revenues from State-Appropriated Funds, in Constant FY 2000 Dollars Per Pupil

36



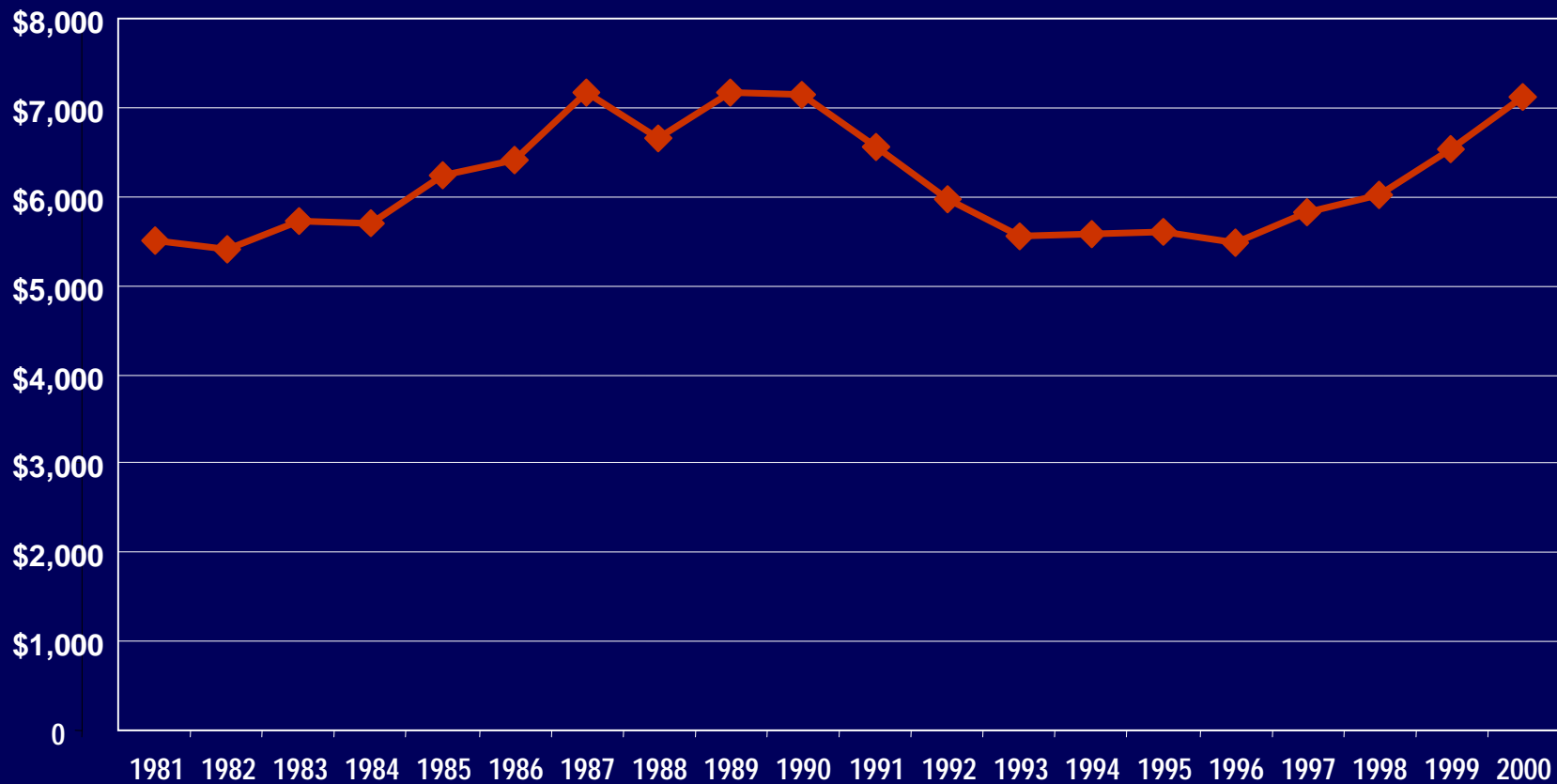
Number of Pupils in the Public Schools

37



Higher Education General Fund Budget Per FTE Student Constant 2000 Dollars

38



Composition of Growth in Individual and Family Services Appropriations FY 1983 – FY 2000 (continued)

39

■ Budget Growth in Individual & Family Services: \$4.5 billion

● Medical Assistance Services	\$2,326 million
● Child Support Enforcement	\$ 391 million
● State Health Services	\$ 384 million
● Employment Assistance Services	\$ 260 million
● Administrative & Support Services	\$ 253 million
● Protective Services	\$ 207 million
● Financial Assistance-Individual & Family	\$ 204 million
● Nutritional Services	\$ 118 million
● Community Health Services	\$ 107 million

Composition of Growth in Transportation and Public Safety Appropriations FY 1983 – FY 2000 (continued)

40

■ Budget Growth in Transportation: \$1.9 billion

- | | |
|---|---------------|
| ● Highway System Acquisition & Construction | \$804 million |
| ● Highway System Maintenance | \$505 million |

■ Budget Growth in Public Safety: \$1.6 billion

- | | |
|--|---------------|
| ● Crime Detection, Apprehension, Investigation | \$343 million |
| ● Secure Confinement | \$315 million |
| ● Pre-Trial & Appellate Processes | \$187 million |
| ● Administrative & Support Services | \$177 million |

Composition of Growth in General Government Appropriations FY 1983 – FY 2000 (continued)

41

■ Budget Growth in General Government: \$3.3 billion

● Personal Property Tax Relief*	\$ 398 million
● Revenue Stabilization*	\$ 194 million
● Financial Assistance to Localities-Gen.	\$ 174 million
● Bond & Loan Retirement & Redemption	\$ 166 million
● Compensation Supplements (State)	\$ 153 million

*Program did not exist in FY 1983

Presentation Outline

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☐ Study Mandates

☐ Budget Growth in Virginia

☒ Case Studies

- Some Major State Initiatives That Drove Spending Growth
- Department of Medical Assistance Services
- Department of Motor Vehicles

Some Major State Initiatives That Drove Spending Growth

43

1979: “HB 599” program established. In FY 2000, \$165.8 million was appropriated.

1986: Transportation initiatives, including gas tax increases. By FY 2000, more than \$650 million stemmed from these initiatives.

1992-93: Revenue stabilization fund established. In FY 2000, \$194.1 million was appropriated.

1998: Personal Property Tax Relief program adopted. \$398.1 million appropriated in FY 2000.

Largest Appropriations, FY 2000

44

1. Dept. of Education	\$4,096 million
2. Dept. of Medical Assistance Services	\$2,863 million
3. VDOT	\$2,401 million
4. Dept. of Social Services	\$1,122 million
5. U.Va. (inc. Med Center & C. of Wise)	\$1,083 million
6. Dept. of Corrections	\$ 719 million
7. DMHMRSAS	\$ 713 million
8. Va. Tech (incl. Extension)	\$ 592 million
9. VCU (excludes MCV)	\$ 501 million
10. Compensation Board	\$ 457 million

Largest Appropriations, FY 2000

(Continued)

45

11. Va. Community College System	\$ 441.7 million
12. Va. Dept. of Health	\$ 410.4 million
13. Personal Property Tax Relief (Car Tax)	\$ 398.1 million
14. Capital Outlay	\$ 392.1 million
15. Va. Employment Commission	\$ 372.4 million
16. George Mason University	\$ 293.1 million
17. Dept. of Criminal Justice Services	\$ 264.0 million
18. Dept. of Alcoholic Beverage Control	\$ 252.0 million
19. Judicial Department	\$ 241.5 million
20. James Madison University	\$ 211.8 million

Largest Appropriations, FY 2000

(Continued)

46

21. Dept. of Treasury	\$ 203.9 million
22. Treasury Board	\$ 202.2 million
23. Dept. of Juvenile Justice	\$ 190.5 million
24. Old Dominion University	\$ 182.2 million
25. Dept. of State Police	\$ 177.9 million
26. College of William & Mary (incl. VIMS, R. Bland)	\$ 175.8 million
27. Compensation Supplements	\$ 173.0 million
28. Dept. of Motor Vehicles	\$ 168.2 million
29. Dept. of Environmental Quality	\$ 162.3 million
30. Comprehensive Services Act	\$ 151.0 million

DMAS Case Study

47

- **DMAS is responsible for administering the Medicaid program, a State-federal program to provide medical services to eligible individuals**
 - **Prior to FY 1985 the Medicaid program was administered by the Virginia Department of Health**
- **Major activities include administering Virginia Medicaid policy, certifying Medicaid providers, and ensuring payments to providers by way of a private contractor**
- **FY 2000 appropriation of \$2.86 billion ranked second in overall budget size**
- **DMAS funding is slightly less than 50% State general funds. Most of the balance is federal funding**

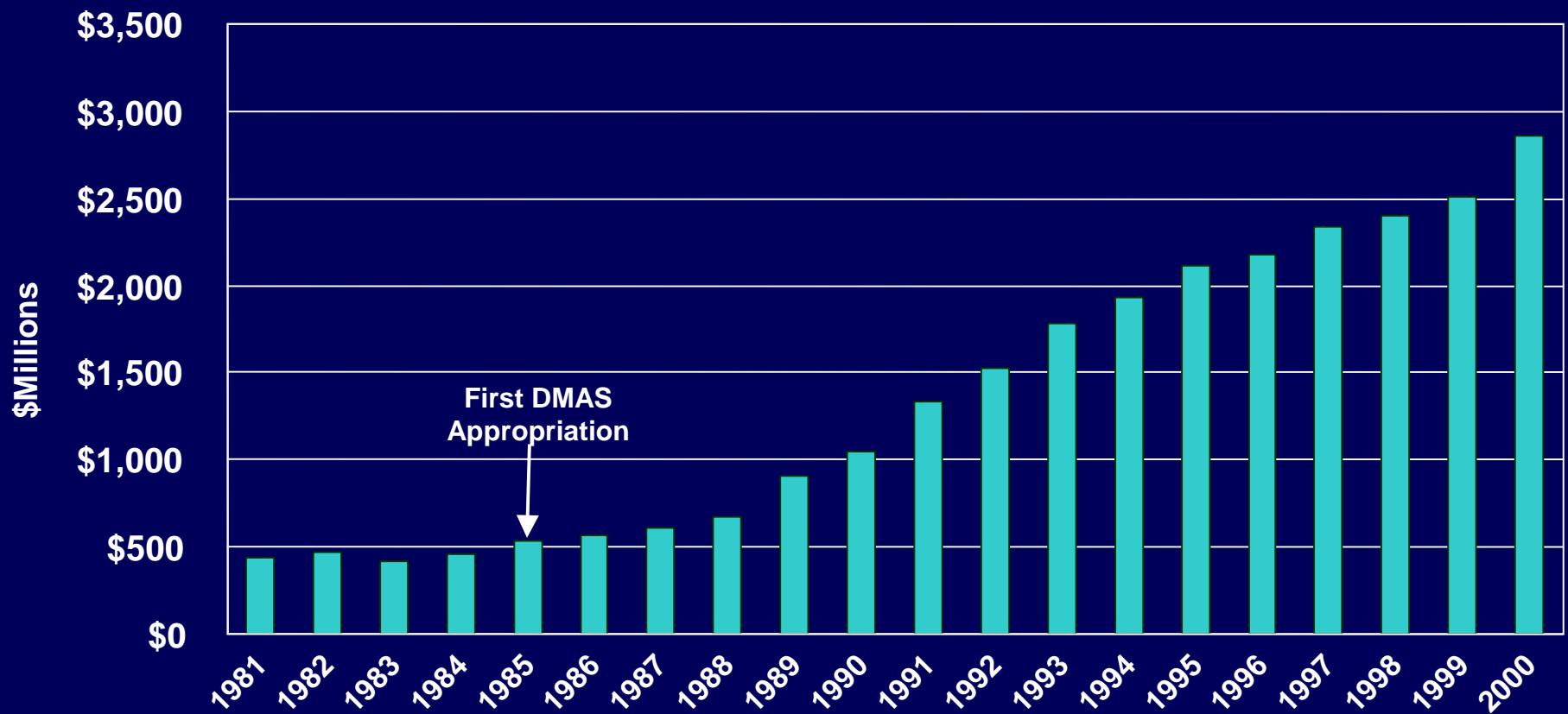
DMAS Key Indicators

48

	Total Aged, Blind & Disabled <u>Eligibles</u>	Total TANF/ADC Related Eligibles (Children & Adults <u>with Children</u>)	<u>Budget</u>
1981	89,008	199,246	\$ 436 million
2000	224,313	449,814	\$ 2,863 million
Increase	152%	126%	557%
Average Annual Increase	5%	4.6%	10.8%
FY 2000 Expenditures	\$1,830.3 million	\$580.4 million	
FY 2000 Per Capita	\$8,160	\$1,290	

Medicaid / DMAS Appropriations

49



Key Changes in DMAS Appropriations

50

- **DMAS appropriations have been characterized by relatively large dollar increases. Significant spending drivers include:**
 - **1990: Federally required expansion of eligibility by covering pregnant women at higher percent of the poverty rate. Economic downturn increased AFDC related enrollment. Health care costs increased.**
 - **1991-93 Rapid nationwide health care cost increases. In-patient hospital expenditures increased. Expanded coverage for pregnant women. Disproportionate share payments begin. Personal care services became an alternative to nursing homes**
 - **FY 1993-1996: Medallion I (HMO) managed care begins & expands.**
 - **FY 1999-2000: Increases in pharmacy expenditures (new & more expensive drugs). Diagnostic related guidelines (DRG) transition costs. Increased rates for nursing homes and personal care services.**

Other Changes Affecting DMAS Spending Increases

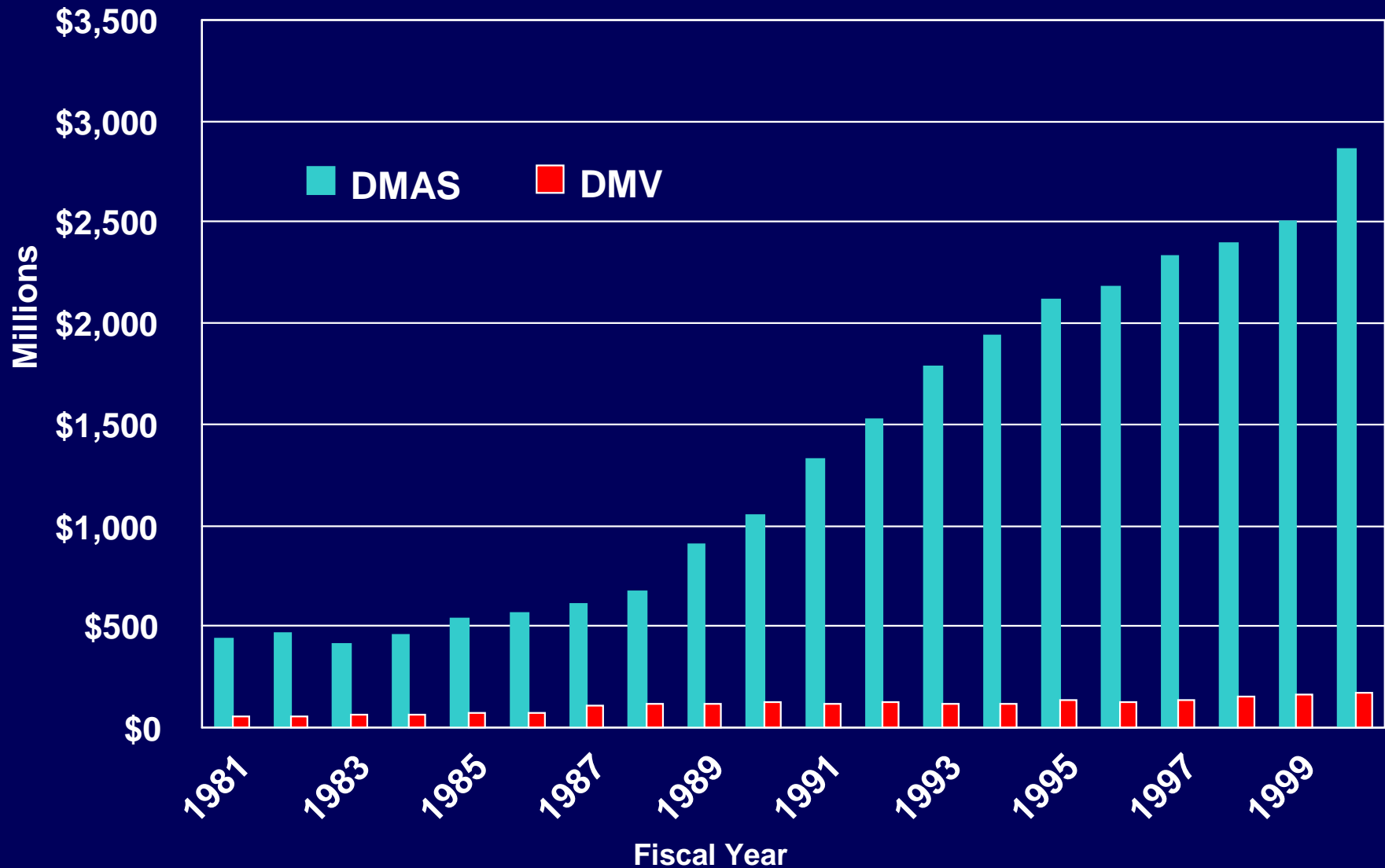
51

■ Increases in the scope of Virginia's Medicaid program:

- 1985: Coverage of Pregnant Women and Poor Children (\$2.2 million GF)
- 1986: Prenatal Care For Mothers, Provision of Neonatal Care (\$2.8 million GF)
- 1989: Grant transfer from DMHMRSAS for institutions (\$76.5 million GF)
- 1991: Catastrophic Health Care (\$19.3 million); Infant Mortality & Poor Children (OBRA 1989) (\$30.3 million)
- 1999: Expansion of Enrollment for Children (\$12.0 million)

DMAS and DMV Total Appropriations

52



DMV Case Study

53

- **DMV administers motor vehicle laws, promotes transportation safety, collects transportation revenues**
- **Major activities include:**
 - Issuance, suspension, revocation of drivers' licenses
 - Vehicle registration, including carriers of passengers or property
 - Operation of motor carrier service centers
 - Administration of personal property tax reduction, fuel tax, dealer licensing, transportation safety, motor voter, and related laws
- **FY 2000 appropriation of \$168.2 million ranked #28 in overall budget size. DMV is funded 100% from non-general funds.**

DMV Key Indicators

(in Millions, Except Percent)

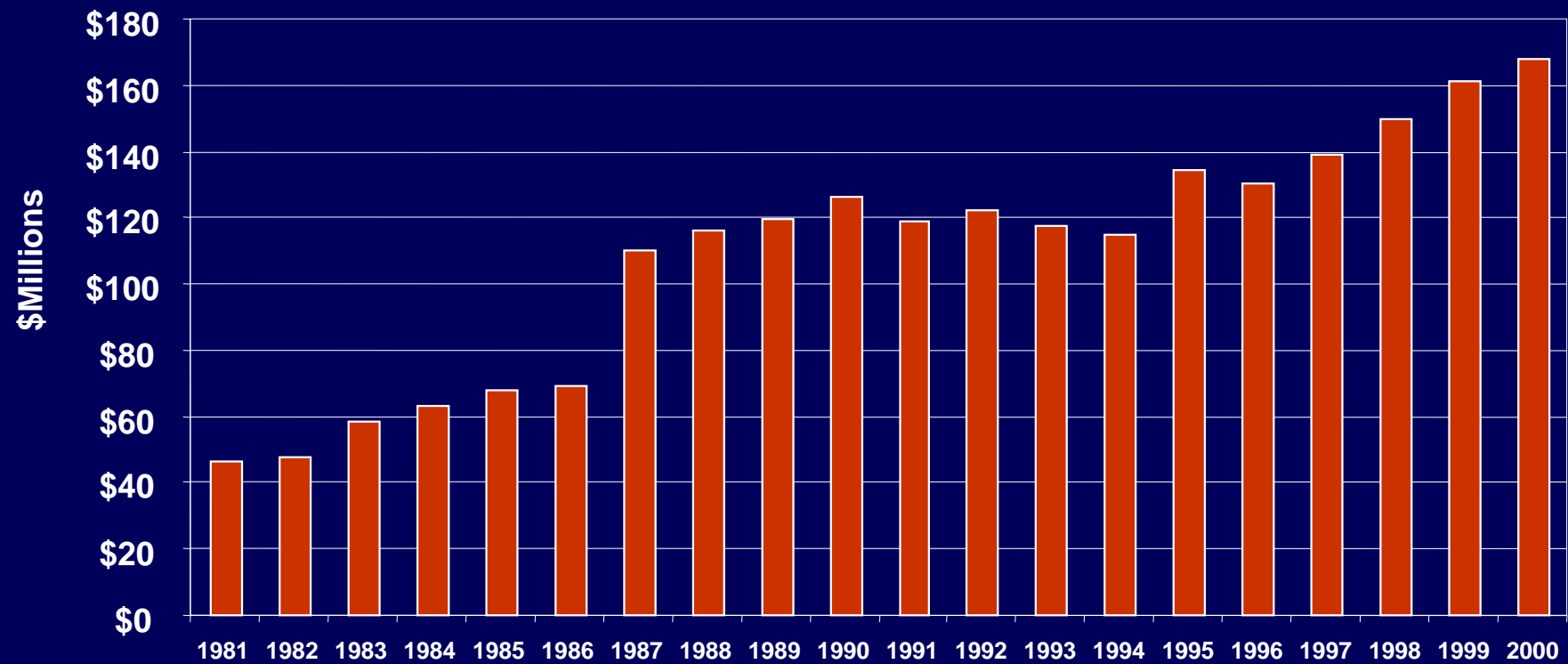
54

	<u>Drivers</u>	<u>Vehicles</u>	<u>Budget</u>
1981	3.6	3.6	\$45.3
2000	5.5	6.2	\$152.8
% increase	54%	72%	237%
Average annual increase	2.5%	3.3%	7.0%

DMV Appropriations

FY 1981- FY 2000

55



Key Changes in DMV Appropriations Since FY 1981

56

- Average annual change, FY 1981–FY 2000: 7.0%
 - State budget average annual change: 7.2%
- FY 1987: 60% increase (\$41 million) over prior year
 - 1986 Special Session increased fuel tax and other transportation-related revenues. The General Assembly established the DMV Special Fund, effective in FY 1988, earmarking specific fees for DMV operations.
- FY 1995: 16% increase (\$19 million) over prior year
 - Workforce Transition Act (WTA) payments for over 200 departing employees; also technology upgrade costs for customer service center system.

Other Major Changes at DMV that Impacted the Budget

57

Technology Improvements

- Queuing system, automated testing system
- License renewals by phone and internet
- Replacement of old systems

New Responsibilities

- Juvenile drivers licensing process
- National voter registration (motor voter)
- Motor carrier credentialing (transferred from SCC)
- Administering car tax phase-out

Other Changes

- Facility renovation & replacement
- Increased hours of operation; centralized call center; etc.

Conclusions

58

- **Per capita growth in the State budget, adjusted for inflation, was 56% between 1980 and 2000**
 - Average annual budget growth, FY 1981 – FY 2000
 - Nominal (unadjusted): 7.2%
 - Adjusted for population growth and inflation: 2.8%
- **Other states kept pace with Virginia's spending**
- **80% of the budget growth was in four functions: education, individual and family services, transportation, and public safety**
 - 5 agencies accounted for 66% of General Fund growth
 - 5 agencies accounted for 75% of Non-General Fund growth

the 1990s, the number of people in the world who are under 15 years of age has increased from 1.1 billion to 1.5 billion. The number of people aged 65 and over has increased from 200 million to 350 million. The number of people aged 15–64 years has increased from 1.5 billion to 2.0 billion.

There are a number of factors that have contributed to the increase in the number of people in the world who are under 15 years of age. One of the main factors is the increase in the number of people who are surviving infancy. In the 1950s, only about 50% of children survived to the age of 5. Today, over 90% of children survive to the age of 5.

Another factor is the increase in the number of people who are surviving to the age of 15. In the 1950s, only about 20% of people survived to the age of 15. Today, over 80% of people survive to the age of 15.

The increase in the number of people in the world who are under 15 years of age is a result of a combination of factors. The most important factors are the increase in the number of people who are surviving infancy and the increase in the number of people who are surviving to the age of 15.

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